



The Berkshire Company Report

**General Services Administration
OMAS/Commercial Payments Initiative**

November 21, 2003

Table of Contents

Methodology and Activities	Page 2
Assessment of Commercial Payments Initiative	Page 6
Assessment of Agencies in Adopting Industry Best Practices	Page 15
Assessment of Agency Plans in Regard to the Initiative.	Page 17
Assessment of Return on Investment (ROI) from the Initiative.	Page 21
Recommendations for Future GSA Policy and Guidance to Agencies. . .	Page 24
Sources.	Page 25

Methodology and Activities

Background

On June 6, 2002, the General Services Administration (GSA) published a regulation requiring all Executive and Congressional agencies (except Congress and the Architect of the Capitol) to migrate from the Official Mail Accounting System (OMAS) and to begin paying the United States Postal Service (USPS) using commercial payment processes, effective October 1, 2003.

Today, all but 5 federal agencies use OMAS to track their postage transactions. The USPS uses the existing Internal Payment and Accounting System (IPAC) system to collect payments from the OMAS agencies once a month. To keep most of the money inside the government, as requested by the Department of the Treasury (Treasury), the high-volume, centrally managed federal mail programs may have to continue to use the OMAS/IPAC process for the foreseeable future.

Some of the agencies slated for conversion to commercial payment processes are resisting the change. In some cases, their resistance appears to originate from simple inertia. Many, however, also question the return on investment, because the conversion does involve up-front costs and the savings suggested by GSA are somewhat unsubstantial and difficult to forecast with any precision. Some also claim that they can achieve the objectives of this Initiative and continue to use the OMAS system.

Original Statement of Work

The Berkshire Company was requested by the GSA to perform the following:

- Assess the background and history of the OMAS/Commercial Payments Initiative.
- Assess the types, volumes, and costs of mail generated by 15 representative federal agencies, as well as the success of those agencies in adopting typical industry best practices that serve to minimize postage and related expenses.
- Assess the plans and expectations of the same 15 representative federal agencies with regard to the Initiative.
- Estimate the return on investment for those 15 agencies from the Initiative.
- Provide recommendations for future GSA policy and guidance to federal agencies with regard to the Initiative.

The work necessary to fully meet the original statement of work could not be completed as many agencies did not have the detail information needed, and the GSA's time and budget constraints on this project. GSA agreed to adjust the statement of work to:

- Assess the OMAS/Commercial Payments Initiative.
- Assess 15 representative federal agencies, and the success of those agencies in adopting typical industry best practices that serve to minimize postage and related expenses.
- Assess the plans and expectations of the same 15 representative federal agencies with regard to the Initiative.
- Estimate the return on investment for those 15 agencies from the Initiative.
- Provide recommendations for future GSA policy and guidance to federal agencies with regard to the Initiative.

Stakeholder Interviews

To learn more about the history of the Initiative, the consultant conducted interviews and reviewed documentation provided by the GSA and the USPS. The interviews were conducted with:

- G. Martin Wagner, Associate Administrator, GSA
- Becky Rhodes, Deputy Associate Administrator, GSA
- Henry Maury, Director, Mail Policy, GSA
- K. Joan Bender, Mail Policy, GSA
- Derrick Milliner, Mail Policy, GSA
- Denise Hicks, Mail Policy, GSA
- Marceto Barr, Mail Policy, GSA
- Jack Kelly, Office of Management and Budget (OMB)
- Dara Seaman, Department of the Treasury
- Karen Price, Department of the Treasury
- Thomas Dale, USPS
- Alan Nichols, USPS

Documentation included reports from the General Accounting Office (GAO), the President's Management Agenda, National Performance Review, and various internal documents.

Agency Interviews

To ensure a good cross-section, some of the agencies selected had already converted to commercial payments, some had plans to convert to commercial payments, while others had indicated that they would request deviations from the rule.

The agencies chosen for this study were:

1. Department of Agriculture
2. Department of Education
3. Department of Energy
4. Department of Interior
5. Department of Justice
6. Department of Labor
7. Department of State
8. Department of Treasury
9. Department of Veterans Affairs
10. Federal Energy Regulatory Commission
11. General Services Administration
12. Peace Corps
13. Railroad Retirement Board
14. Small Business Administration
15. Social Security Administration

The Small Business Association did not provide a representative to discuss the Initiative.

Interviews with the agencies were conducted in person and over the phone. Agency representatives were asked a series of questions to solicit their opinions on the Initiative, their ability to comply with the Initiative, and expected results of the Initiative.

In Fiscal Year 2002, the OMAS system totaled \$845,388,251. The 14 agencies interviewed represent a total spend of \$722,378,779.00, or 85.7% of the OMAS funds.

The interviewees had a considerable range in experience with agency mail – from several months to 30 years. The average length of experience was 9.1 years and the median was 8 years.

The people interviewed were (alphabetical by agency):

Bureau of Engraving and Printing – Martin Featherston
Bureau of Engraving and Printing – Bob Walsh
Department of Agriculture – Michael Gregor
Department of Energy – Al Majors
Department of Energy – Tony Nellums
Department of Education – Richard Brown
Department of Education – David Codgill
Department of Interior – Richard Willis
Department of Justice – Paula Scholz
Department of Labor – Cheryl Robinson
Department of State – Tim Keitz
Department of State – Wandra Miller
Department of Treasury – Polly Dietz
Federal Energy Regulatory Commission – Bob Knight
Financial Management Service – James Friday
General Services Administration – Ernie Stevens
Internal Revenue Service – Jerry Boyd
Internal Revenue Service – Jeff Mauser
Internal Revenue Service – Benno Stamurs
Internal Revenue Service – Eva Williams
Office of the Comptroller of the Currency – Steve O'Briant
Peace Corps – Kathleen Goldsmith
Peace Corps – Juan Rice
Railroad Retirement Board – Lloyd Kingsbury
Social Security Administration – George Rosch
US Mint – Geoffrey Sherman
Veterans Benefits Administration – Gayle Brown
Veterans Health Administration – Ted Benn

Assessment of Commercial Payments Initiative

Background and History

For commercial and private mailers, postage on all mail must be fully prepaid at the time of mailing, except as specifically provided by regulation for Business Reply Mail, merchandise return service, and the return of keys and identification devices to owners. Prepayment is conducted through the purchase of stamps, deposit of funds in a meter account, or payment of permit postage at the time of mailing. Most companies maintain accounts with the USPS for permit mailings, Business Reply Mail and merchandise return service.

Under Title 39 of the U.S. Code, the USPS is not allowed to require federal agencies to prepay for postage. Initially, the USPS would request that agencies conduct sample measurements of their mail to determine chargebacks. The current OMAS system was created to "allow government agencies to achieve total direct accountability of their postage costs" (USPS Publication 350).

As part of the current system, the USPS and participating agencies budget an approximate amount of postage for the upcoming fiscal year. This amount is based on prior usage and forecasting of volume changes. Each month, the USPS requests that one-twelfth (1/12) of the budgeted amount be transferred through the Interagency Payments and Collection System (IPAC). At the end of the fiscal year, the USPS calculates the difference between the budgeted amount and the actual dollars spent. That difference is then issued as a debit or credit through the IPAC system in the next fiscal year.

As of November 1, 2003 the OMAS accounting for FY2003 was not completed for all agencies. For the agencies representing over 87% of the postage used in OMAS, 6 agencies owed the USPS \$61.9 million and 11 agencies are entitled to refunds totaling \$25.8 million.

To assist agencies with tracking actual expenditures, the USPS issues periodic reports to the agencies of all transactions processed through OMAS. This report is a computer file with detail information on meter downloads, permit usage and penalty stamp purchases. These reports are now issued on a monthly basis.

In the late 1980s, certain agencies began to move away from the penalty mail system, and started using the same payment system as private sector mailers. The most prominent agencies to initiate the change to commercial payment systems include the Department of Defense (DoD), Department of Agriculture (USDA) and the Department of Energy (DoE). Both DoD and USDA continue to use OMAS for certain mailings. Of the three, only DoE has converted all of their mail to commercial payment systems.

These agencies converted to commercial payment systems to improve accountability. At the time, commercial payment systems provided greater flexibility than OMAS to track expenses down to the user level. By making users more accountable for their expenses, the agencies intended to instill greater discipline on postage spending. This accountability, along with increased education, improved use of discount mail practices, and other Initiatives, allowed the agencies to achieve significant decreases in postage expenses.

During this same period, the U.S. General Accounting Office (GAO) issued a report on mail management entitled, "GSA Needs to Improve Support of Agency Programs" (August 1990). One of its principal findings was that agency mail operations are not reviewed. The GAO concluded that agency mail operations could be improved through the review process.

In 1992, a task force of agency mail managers produced a report to the President's Council on Management. This report identified targets of opportunity which could result in postage savings and improved mail management. Among its major findings and recommendations was that agencies should be required to capture and report specific postage savings and mail management accomplishments at least annually. On December 6, 1994, GSA published recommendations for capturing postage costs and piece information, and encouraged agencies to submit reports on an annual basis.

In the following years, GSA increased the resources dedicated to mail communications policy. This included the establishment of the Interagency Mail Policy Council (IMPC) to provide a forum for collaboration among federal agencies. A constant theme heard in IMPC meetings was the difficulty agencies had with OMAS and the deficiencies of the system. These opinions were echoed by senior officials in GSA and the Office of Management and Budget (OMB).

On May 29, 2001, the GSA published proposed mail regulations. The proposed regulations included the requirement for reporting to GSA, but OMAS and the Commercial Payments Initiative were not mentioned. The GSA received 38 comments from 19 agencies and one response from the general public. The comments expressed concern over the costs associated with the reporting requirements. Agencies also wanted to know what GSA intended to do with the information and requested a formal cost benefit study prior to adoption of the proposed rules.

On June 5, 2002, GSA published an interim rule (41 CFR 102-192). The new rule incorporated a requirement for agencies to convert to a commercial payment process by October 1, 2003. The rule established reporting requirements for large agencies (defined as agencies whose total annual payments to all service providers exceed \$1 million). The reporting was limited to providing postage dollars spent and a copy of each agency's security plan.

Shortly after GSA issued the interim rule, the Treasury Department asked the USPS and GSA to find a way to keep the money inside the Treasury. GSA assembled an interagency team and worked for a full year on different approaches to accomplish this goal. The team's conclusion was that meeting this requirement would require that the USPS build a new, government-unique system, which the USPS would then have to maintain along with OMAS. The three agencies together decided that this system would not be cost-effective.

Despite this recommendation, the Treasury Department insisted that certain agencies with large postal expenditures be allowed to remain with the OMAS system. The central reasoning behind this decision was to prevent the loss of interest when funds left the Treasury and were deposited in commercial banks. These agencies include the Internal Revenue Service, Social Security, and the Department of Labor.

On September 29, 2003, GSA amended the interim rule to extend the deadline to convert to commercial payments to December 31, 2003. The amendment stressed the GSA's commitment to implementing a more accountable system for making postage payments throughout the federal government, and included the requirement for agencies to request a deviation to continue to use the OMAS/IPAC system. On October 6, 2003, GSA published the guidance on preparing deviation requests. On October 7, 2003, this guidance was followed by a GSA Policy Advisory on converting to commercial payment systems for postage. The Treasury Department established the procedures for commercial payments to the USPS in a Financial Management Bulletin published October 24, 2003 (FMB 2004-02).

Critique

Through this policy, GSA intends to help agencies better manage the federal postage dollar by:

- eliminating a government-unique postage payment system (OMAS);
- increasing accountability of postage spent; and
- ensuring security of federal mail centers.

This critique evaluates the methodology GSA used to craft and implement the policy, as well as whether this policy succeeds in meeting the intent.

The policy was crafted with input from the agencies, OMB, the USPS and GSA officials. The interim rule was published in June 2002, allowing agencies 16

months to develop conversion plans. However, with less than 8 weeks left before the deadline, many agencies have not even begun planning the conversion.

During the interceding months, GSA gave briefings to agencies at a number of venues, including the IMPC, GSA Educational Forums, the National Postal Forum and MailCom. These presentations were given jointly with a representative from the USPS.

Despite these efforts, there is still genuine confusion on the part of some agencies. Comments from managers included:

- "No one has given agencies instruction."
- "Still waiting for Treasury guidance."
- "I have two issues – how do I make payments and how do I convert?"
- "The guidance is muddled."

Additionally, agencies believed their concerns about conversion from OMAS were never fully addressed by GSA. Concerns included:

- "No cost-benefit study has been completed."
- "Where do you get the money to pay for conversion?"
- "Have not seen proof of cost-benefit."
- "Where are you going to get cost savings?"
- "What are the benefits of commercial payments?"
- "Conversion costs outweigh potential benefits."
- "If I'm tracking expenses down to the program level, why do I have to convert?"

GSA's presentations and advisories do not answer the cost-benefit questions. No cost-benefit study was completed prior to drafting the policy. The DoD program and related savings were held up as the models of success.

Agencies had similar concerns with the reporting requirement. There was no clear understanding of why GSA wanted the reports, and what GSA was going to do with the data collected. Also, there was confusion over how detailed the program-level accounting had to be.

GSA consistently explained that the term "program level" was left up to the agency. However, GSA has not established what will be done with the data collected. To date, no valuable information has been shared with the agencies as a result of the reports submitted.

The development of this policy could have been improved by:

1. More effective communication with the agencies.
2. Developing procedures for conversions, deviation requests and reporting structure prior to publishing the rule.
3. Developing a methodology for sharing information from the reports.

As noted, GSA communicated often with the agencies during this process. Yet the message has not always gotten through. In addition to briefing the agency mail managers, GSA prepared guidance and briefings for agency finance staff and senior leadership. However, there was little interest in the subject matter, and GSA Mail Communications Policy was unable "to get anyone to pay attention." To ensure attention was paid, GSA should have issued briefings and notices from more senior members of the organization, similar to the October 6, 2003 Policy Advisory signed by G. Martin Wagner.

Further, GSA never addressed the cost-benefit analysis head-on. By continually propping up DoD as an example, and not supplying detailed information, GSA increased the frustration of the agency mail managers. The DoD conversion started 15 years ago, and is not complete. Further, DoD cannot point to the conversion as the cause for its postage expenses decreasing. Changes in technology, increased use of presort services, and extensive downsizing by the military all contributed to the reported savings. These facts are known by most agency mail managers, relegating the DoD experience to what one manager aptly called "urban legend" status.

Working with the agencies that had converted, the USPS, and the meter manufacturers, GSA should have prepared guidance similar to the information that was distributed during the last month. The guidance should have been more detailed, including a pricing schedule for permits, e-postage and meter adjustments. And that guidance should have been made available in June 2002, concurrent with the publishing of the interim rule.

Similarly, GSA should have developed a better message and plan for the reporting requirements. Requesting reports to merely validate that agencies have plans is "reporting for reporting sake" and adds no value to the federal government.

Gathering information from all agencies provides unique benchmarking opportunities. Reports should be gleaned for information that can be helpful to other agencies. Putting that information in an easily accessible database will enable it to create value. Security plans should be reviewed for completeness and written comments provided to each agency.

Does this policy achieve the intended objectives?

As written, the policy can help complying agencies better manage the federal postal dollar. But the policy will not require all agencies to convert from OMAS or comply with the reporting requirements. Agencies are allowed to request deviations and only large agencies must submit reports.

Some agencies have developed sophisticated methods of reconciling OMAS data. Two notable agencies include the Coast Guard and the Department of Labor. Contracting with an external programmer, Labor has developed a system that tracks expenses to the program and location levels. Using this program, Labor has identified misallocated expenses and designated areas for improvement.

Agencies that are conducting this type of analysis are meeting the stated intent of the regulation. The agencies have program-level accounting and are aggressively managing postage expenses. Under the current policies, such an agency should be granted a deviation from conversion to commercial payments.

To be truly effective, the policy requirements should have been stricter. Deviations should only have been allowed for two years with all agencies required to submit conversion plans with their deviation requests. Also, all agencies should be required to submit annual reports, regardless of size.

OMAS is a postage accounting system that cannot provide real-time data, does not track actual postage spent, and does not include information on the number of pieces mailed. OMAS only provides monthly reports, only tracks meter downloads, not usage, and only records the funds transferred to the USPS. These deficiencies are significant obstacles to creating a highly efficient mail management program.

The argument from Treasury that large agencies should be allowed to remain in OMAS due to lost interest is not supported by the facts. In FY2003, agencies spent approximately \$895.3 million under OMAS. Under the commercial payments system for permit and meter postage, when this money is transferred to the USPS, the government only loses one day's interest. Using the Treasury department's simple rate calculator (www.fms.treas.gov/prompt/ppcalc1.html), that equates to \$77,717 with the interest rate set at 3.125% (the default rate of the calculator). Even adjusting the interest rate to 10%, the amount only increases to \$248,694. (Note: On October 31, 2003 the interest rate for Treasury short-term bills was 1.03% and the long-term rate was 5.23%).

By allowing certain agencies to remain with OMAS, GSA is significantly minimizing the opportunity for savings. The largest agencies have no incentive to

move away from OMAS and adopt commercial payment practices. Most significantly, the USPS will need to continue to operate two separate payment systems. Under the current policy, the USPS will actually spend a greater percentage of OMAS postage to maintain the system than it does today.

Over a decade ago, private industry mailers adopted systems to track postage expenditures and piece count to the user level. Companies use both internally developed programs as well as commercial software for this purpose. Tracking expenditures has become more sophisticated and detailed. Mail operations must not only report postage to the piece level, but the complete mailing costs, including material and handling.

Moving to commercial payment systems is one step toward adopting the best practices of private industry. Agencies need to stop looking at their challenges as unique in the mailing industry. Managing multiple mail centers, meeting deadlines prescribed by law, and facing intense political pressure occur in the private sector as well. The OMAS system is a stumbling block to the government's movement toward progressive management practices.

Similarly, the reporting requirement needs to be expanded to add value to the agencies. All agencies, regardless of size, should be maintaining proper records on their mailing operations, and they should have management and security plans. The reporting to GSA should be merely forwarding information already on file.

GSA should expand the reporting requirement to include piece count by class of mail and category of shipping. For example, agencies should complete a form similar to the following:

Postage Expenses:

Type of Mail	Number of Pieces	Postage
Express Mail		
Priority/First Class Mail		
Standard Mail		
Periodical		
Package Services		
International (Airmail, IPA or ISAL)		

Other Carriers:

Carrier	Number of Pieces	Shipping Expense
FedEx		
UPS		
DHL		
International remail		
Other carriers		

If agencies have the information, they should break down First Class and Priority Mail, as well as single piece and presort mail.

This information should be submitted electronically, and if possible, through the GSA website. The information should be stored in a database and analyzed for trends, pricing and best practices in expense management.

The most common argument against this type of detailed reporting is based on the time required to collect the information. Every metering system tracks the number of pieces run through the machine, and every permit mailing requires a piece count on the form. Transferring this information to a database or spreadsheet takes seconds a day. The challenge is designing an efficient system for collecting and tracking the information.

The Department of Energy (DoE) has done an excellent job in designing such a system. Sites are required to track usage in their centers. Regionally, "parent mail managers" are then responsible for consolidating the information from sites in their area. The information is then forwarded to DoE headquarters to complete an agency mail profile.

Similarly, the Veterans Health Administration (VHA) requires the 200 VHA facilities to submit a monthly meter report, including piece count. This information is submitted electronically and copied into a master spreadsheet. The meter information is supplemented with the use of the USPS Centralized Account Processing Postage System (CAPS) to track Business Reply Mail expenses for all locations.

An example from the private sector is a technology corporation with over 100 offices around the world. Every office is required to complete an Excel spreadsheet on postage spent and pieces mailed. The reports are sent electronically to the company's headquarters in California each month. The corporate manager is able to review for trends and to develop strategies for reducing expenses.

The mail center security plans should be reviewed by GSA with assistance from the Federal Protective Service and the U.S. Postal Service Inspection Service. Any deficiencies should be noted with a follow-up report to the agency. Best practices should be shared with all agencies through the IMPC and GSA Educational Forums.

Certain agencies have stated that they will not submit security plans, as they do not want that information to leave the agency. In those cases, GSA should request to review those plans at the agency and provide feedback on-site.

Assessment of Agencies in Adopting Industry Best Practices

The main focus of the agency interviews was the Initiative. The questions were formulated to also gain insight to the agencies' mail management practices. Agencies were generally open in sharing information about their operations.

As noted earlier, agency mail managers have considerable experience in their roles. The average time in mail operations was 9.1 years and the median was 8 years, consistent with the mailing industry as a whole.

The most common tool to reduce expenses was the use of presort services. Several of the agencies were clients of the presort operation at the Department of the Navy. Others required contract lettershops and printers to maximize postage discounts as part of their services. Most district or satellite offices were considered too small to benefit from presort services.

A few agencies had begun to use third parties to drop-ship mail. Contractors such as R.R. Donnelly, SmartMail and UPS Mail Innovations, consolidate standard mailings and enter the mail into the USPS workflow closer to the final recipient. These services are limited to those pieces that qualify as Standard Mail.

An interesting note is a comparison of the level of expense tracking by agencies using commercial systems to those agencies using OMAS. Generally, the agencies using commercial systems were more progressive, and tracked all expenses to a detail level. Of the agencies still with OMAS, less than half of the agencies tracked expenses below the agency level.

The most common weakness among the agencies was a lack of knowledge of postage payment systems outside of OMAS. For example, agencies were concerned about the additional expenses they would incur due to the requirement of opening permits at different locations. In actuality, agencies are already charged for Business Reply Mail permits in each location that they have that service. This charge is included in the OMAS reports, but appears to be overlooked.

For several of the agencies, mail is only one of many responsibilities of the manager. With multiple priorities (e.g., recruitment, budgeting and homeland security), postal expenditures are given little attention. This attitude also correlates with less experience in agency mail management.

Critique

The level of professionalism among agency mail managers is on par with their peers in the private sector. A few agencies are aggressively managing the federal postage dollar and enabling cost-based budgeting. Overall, there exists a desire to do a good job within the confines of what is expected.

However, in today's environment, being "good" is not good enough. Agency mail managers should strive for excellence in their operations. The President's Management Agenda challenges agencies to implement bold strategies for improving the management and performance of federal government. Managers are expected to produce and have access to detailed information to make better decisions.

Two of the leading management techniques of the last decade – Total Quality Management (TQM) and Six Sigma – are based on accurate and detailed measurements. The value of this information, like cost per piece, must be recognized as an important part of effective mail management. Agencies cannot know where to effectively focus improvement efforts if they do not know where the problems exist.

Further, agency mail managers should be encouraged to seek out professional certification. Of the 25 mail managers interviewed, none had achieved the Certified Mail and Distribution Systems Manager (CMDSM) or the Certified Mail Manager (CMM) designations. These are the two highest independent certifications in the industry. Education and certification are the hallmarks of excellence in mail management.

Assessment of Agency Plans in Regard to the Initiative

Of the 14 agencies interviewed, only one, DoE, has fully converted to commercial payments. Two had partially moved from OMAS (USDA and VA), and would be requesting deviations for those areas still under OMAS. Two agencies had begun conversion (Interior and Railroad Retirement Board), and would need additional time to complete the process. The 9 remaining agencies indicated that they would be requesting deviations. Education has submitted a deviation request for additional time to complete conversion. Because the mail managers were still discussing alternatives with their agencies, it is not clear what form the deviation requests will take for Justice, Federal Energy Regulatory Commission, GSA and the Peace Corps. Permanent deviation requests can be expected from Labor, State, Treasury and Social Security.

The most significant reasons for requesting deviations had to do with existing chargeback systems. Certain agencies have invested in programming to analyze the OMAS data and create reports. Some large agencies have developed print and mail processes around OMAS, and changes could cause other mail (non-postage) expense.

The agencies that have begun conversions have run into few difficulties. Some have capitalized on the conversion program to upgrade their metering equipment. One agency was able to actually reduce expenses by switching vendors. Also, agencies have worked with the meter vendors to create reports from the commercial accounting systems that meet or exceed the level of detail provided by OMAS.

A notable challenge facing these agencies has been the establishment of permits at each location. Not all post offices are connected to the USPS Centralized Account Processing Postage System (CAPS) system, so individual accounts need to be set up in those areas. Also, some agencies are discovering that they have more meters than originally thought.

For the agencies requesting deviations, most had not prepared to convert to commercial accounts. Some knew of the exceptions agreement with Treasury, and considered themselves covered by that agreement. Others were still waiting for formal guidance from GSA and Treasury.

Critique

The agencies that have started conversion have not run into any insurmountable problems. Interestingly, there are agency mail managers who disagree with this policy, but they are still being successful with the conversion. While some of these agencies will not meet the December 31, 2003 deadline, they have solid plans in place and should be converted by the end of 2004.

The agencies that do not plan to leave the OMAS system were awaiting guidance on the deviation procedures. Due to the size of the agencies, their deviation requests will not be completed by the deadline of November 7, 2003.

The agencies that have not begun conversion planning stated that they were holding off in anticipation of GSA and Treasury guidance. As noted earlier, this is a legitimate complaint. However, as other agencies have begun the process without guidance, all agencies should have at least started the planning process.

It also appears that a number of agencies were waiting for GSA to address their specific concerns before proceeding. Their concerns are valid but should not have stopped the planning process. These concerns have been grouped into common themes and are addressed below.

The GSA has no legal authority to publish this regulation.

GSA's legal department has concluded that this regulation clearly falls within the auspices of its charter. The claims that this regulation is in violation of Title 39 of the U.S. Code are incorrect. Title 39 governs only what the USPS can and cannot do, not what GSA may do.

Agencies do not understand the push for conversion at this time. What is the rush?

There is no rush to conversion. The interim rule was published in June, 2002 and allowed agencies 16 months to plan for conversion. Despite improvements by the USPS, OMAS remains a fundamentally flawed program with reconciliation taking place after the fiscal year ends.

GSA should have started with one agency and gone through the process step-by-step.

Other agencies have completed the conversion process and have shared their experiences. DoE and VHA have made themselves available to all agencies to explain the systems and procedures that they have developed. While each agency's situation is unique, all can benefit from the lessons learned from these agencies.

No one has given the agencies instructions.

Briefings on converting to commercial payments were given at least three times since the interim rule was published in 2002. These briefings did not include the detailed steps provided in later guidance, but did have enough information for initial planning.

Do we know how much it will cost to convert?

The greatest costs for agencies will come in the form of mailing machine updates and constructing a system to support commercial payments. The average cost to update a mailing machine with a new meter is about \$100 (Note: The meter is the part of the mailing machine that stores and dispenses postage). For smaller agencies with few mailing machines, this will be a minimal expense. Some agencies have taken this opportunity to upgrade their mailing machines, installed with commercial meters at no additional cost.

For larger agencies, this will be a significant expense. One agency reported having 8,000 meters, making this an \$800,000 project. If agencies had not budgeted for this after the publication of the interim rule, implementation may have to be delayed until funds are available in the next fiscal year.

The cost associated with setting up an entire new accounting system is difficult to calculate. Agencies should work with finance/comptroller departments to set up automatic electronic funds transfers (EFTs) to the meter vendors and the USPS. This procedure will ensure that there is sufficient postage available at all times. As managers gain experience with commercial payments, the EFT amounts can be adjusted to minimize dollars leaving the agency.

Agency regulations prohibit using credit cards for postage.

Under OMAS, it was wise for agencies to prohibit the use of credit cards for postage. With a commercial payment system, credit and debit cards will be invaluable tools for smaller locations and remote individuals. Mail managers should work with the appropriate staff in their agency to rewrite these internal regulations.

Why can't OMAS accept advance payments?

An interagency team with representatives from GSA, Treasury and the USPS studied this problem for a full year. The team concluded that it was not feasible to create another system that would provide the same accountability as commercial payments.

The only problem with OMAS is that Tom Dale (USPS-OMAS) may retire.

This concern is echoed in the comment "Tom Dale is always willing to do the research to resolve issues." Having been with OMAS since its

inception, Tom is truly the expert and is genuinely respected by the agency mail managers. A few agencies have become over-reliant on Tom Dale and his expertise. Conversion to commercial payments will force more agencies to take added responsibility for their postage accounting.

Change is impossible due to the culture of my agency.

Change is always possible. It may be more difficult for some agencies, but it is always possible. Mail managers must become agents of change in their organizations. Managers need to work with agency leadership for backing, and ask for public support of the Initiative.

This approach will not work unless the mail manager actually believes they will be successful. Starting from the position that the Initiative will fail guarantees a self-fulfilling prophecy. Commercial payment systems and direct accountability work in thousands of companies where political challenges and management "turf battles" are regular occurrences.

Agencies have more important priorities than counting postage.

In FY2003, the federal government spent over \$1 billion on postage. For the most part, that expense was incurred one letter at a time, in cost increments of pennies. By analyzing data at the finest levels, the government should be able to uncover additional savings.

Large commercial mailers are now breaking down expenses to the hundredth of a cent in attempts to glean additional savings and maximize profit. Similarly, agencies need to aggressively monitor postage expenses to free up federal dollars for critical functions. Also, since the anthrax attacks of 2001, agencies are spending significantly more money to enhance the security of their mail centers.

Assessment of Return on Investment (ROI) from the Initiative

The stated intent of the Initiative was to help agencies reduce costs through better management of the federal postal dollar. Every agency that converted to the commercial payment process has seen savings. It is logical to infer that other agencies would achieve similar results.

With the lack of detailed information on the exact number of meters and mailing locations, the total expense to complete the conversion can only be estimated. Based on the agency interviews, there are approximately 20,000 mailing machines that will need new meters. Also, there are about 2,000 sites that will require new mailing permits. Business Reply Mail permits are not included in this estimate as they are already charged to the agencies under OMAS.

The cost for exchanging meters varies by vendor and local dealer. Some of the vendors are offering special deals to the larger agencies, while others have set a standard price at an average of \$125 per machine. As noted, some agencies are using this opportunity to purchase new mailing machines. For these agencies, there will be no charge for new meters.

If all machines needed new meters, the total cost to the government would be about \$2.5 million. A mailing permit costs \$125 per location, bringing the expense for new permits to \$300,000.

There will also be some initial soft costs as managers spend time establishing new procedures, learning new finance methods and working with vendors to create reports. This process will be easier for the smaller agencies and more challenging for larger, geographically dispersed agencies. Also, the comptrollers and finance staff will need to set up new accounts, EFT transfers, and methods to track postage expenses on debit and credit cards.

Conservatively, this Initiative will cost the federal government about \$3 million, not including the efforts by GSA in developing the Initiative or approving deviation requests.

Will the Initiative generate savings to offset the \$3 million?

There are very limited direct savings that will be derived from the Initiative. Because OMAS will continue to exist under this Initiative, the USPS will continue to maintain two postage accounting systems. And since some of the agencies being considered for deviation approvals have numerous offices, the USPS will still be handling a significant number of manually processed items. In fact, as a percentage of postal dollars spent, OMAS will actually be more expensive for the USPS under this Initiative.

Direct benefits to agencies will be minimal as well. With the exception of those few agencies that use external programmers, there are no direct costs associated with OMAS. And those agencies that do use contract programmers to analyze OMAS data will probably continue to use contractors to analyze all postage data.

If there are no direct savings, then why continue with the Initiative?

OMAS is a flawed system. It cannot provide real-time data, does not track actual postage spent, and does not include information on the number of pieces mailed. The USPS and the agencies must maintain two postage accounting systems to get accurate information.

To know how much postage is actually spent, an agency would need to maintain a system that tracks postage paid by permit, postage paid by stamps, postage paid by meter, and the postage that is still on the meters (Note: Postage downloaded to a meter, but not put on envelopes remains an asset to the agency). At the end of each month, this data must be reconciled with OMAS data. If there is a discrepancy, it must be reconciled with the USPS. The actual fiscal obligation is not resolved until the next fiscal year after the final OMAS credit/debit through IPAC.

Under a commercial payment system, the funds are requested against budget, and obligated when spent. The balancing of permits and meters is the final step, not an interim one. There is no need for reconciliation with the OMAS system and the accounting is completed in the same fiscal year.

Some agencies do not even reconcile the OMAS system with actual dollars spent, but just accept the numbers presented by the USPS as accurate. In some cases, the agencies do verify that the meters included in the OMAS report are actually leased by that agency. But the agencies do not know how much money is still on the meters in those offices.

These two scenarios demonstrate the bipolar weaknesses of OMAS. Either the agency must duplicate their efforts to gain accurate data or expend no effort and have minimal accurate data. Neither hypothesis represents efficient management of federal postal dollars.

Some have argued that agencies that have saved money under the existing system do not need the added expense of switching to a commercial payment system. The argument is equivalent to a healthy person saying that they do not need the expense of a regular physical. Why should a healthy person go to the doctor? To ensure they stay healthy.

A cholesterol screening test does not guarantee that it will detect high cholesterol levels so a doctor can recommend treatment. However, without such screening, there is no way a doctor can detect high cholesterol or provide the treatment needed to keep the patient healthy. Similarly, detailed, accurate information about mailing operations is essential to helping mail managers uncover flaws and implement the necessary changes to stay efficient.

One of the nation's largest telecommunication companies mails about 1 million pieces per day from several locations. Like some agencies, they have many types of mailings including bills, letters, flats and small parcels. The company is required by law to have certain mailings completed by set deadlines. Failure to do so could result in fines and lost revenue.

To aggressively manage their postal dollar, this company uses a combination USPS Centralized Account Processing Postage System (CAPS) and commercial payment software. These systems allow the company to track postage by line of business, and even by individual customer. This type of detailed accounting is not possible under OMAS.

This company presorts almost all of its mail and closely monitors piece design and classes of mail. Their management has been publicly recognized for their efficiency by trade groups and the USPS. However, by regularly scrutinizing their mailing costs, they can continue to work to reduce costs. Lines of business can monitor true profitability, and then adjust mailings as needed.

The federal government has been able to improve operations by adopting best practices from the private sector. The top corporate mail operations utilize commercial payment systems to manage the postage dollar spent. Highly detailed, accurate records and chargebacks to individual lines of business are the hallmark of a best-in-class mail operation. Through the adoption of this Initiative, the federal government will be able to further improve the efficiency of agency mail operations and assist in better management of the federal postal dollar.

Recommendations for Future GSA Policy and Guidance to Agencies

The GSA should continue with the implementation of this Initiative. To help agencies with the conversion process, the GSA should:

- Provide written feedback to the agencies on their concerns.
- Publish deviation requests that have been approved.
- Continue to share the positive experiences of agencies through the IMPC and other educational sessions.

The annual reporting requirement by GSA should be extended to all agencies. The information should be kept electronically and stored in a database. Working with the IMPC, GSA should publish a benchmarking report, including best practices adopted by agencies.

As noted in this report, OMAS will still be used by agencies under this Initiative. The benefits of this Initiative will not be fully realized until OMAS is shut down. GSA should continue to work with OMB, Treasury and the USPS to assist *all* agencies with moving away from OMAS. Direct support should be provided to those agencies with more complicated issues (locations in remote areas, etc).

The very structure of the USPS is under public scrutiny at this time. In response to the Presidential Commission on the USPS, both houses of Congress have begun conducting hearings. Although this issue does not carry the same gravity of many of the challenges facing the USPS, it does represent a key challenge the USPS faces that private carriers do not. OMAS and how the government, including Congress, pays for postage should be given greater scrutiny at this time. GSA should consider offering testimony on this subject.

Sources

Creating a Government That Works Better and Costs Less: Reinventing Support Services (National Performance Review, Vice President Al Gore, September 1993)

Domestic Mail Manual, Issue 58 (United States Postal Service, October 2003)

Federal Management Regulation; Mail Management - Federal Register (59 FR 62601, December 6, 1994)

Federal Management Regulation; Mail Management Proposed Rule - Federal Register (66 FR 29067, May 29, 2001)

Federal Management Regulation; Mail Management - Federal Register (67 FR 38896, June 6, 2002)

Federal Management Regulation; Mail Management - Federal Register (68 FR 56112, September 29, 2003)

Federal Reserve Statistical Release; Selected Interest Rates (Daily) (Federal Reserve website, www.federalreserve.gov, October 31, 2003)

GSA Policy Advisory: Guidelines for Federal Agencies on Converting to Commercial Payment Systems for Postage (GSA, October 7, 2003)

Mail Management, GSA Needs to Improve Support of Agency Programs (US General Accounting Office, August 1990)

The President's Management Agenda, Fiscal Year 2002

Publication 350, How to Order and Use Penalty Mail Stamps and Stationery (United States Postal Service, December 2001)

Report to the President's Council on Management Improvement: Mail Management Initiative (GSA Task Force, October 1992)

Treasury Financial Manual Bulletin No. 2004-02: Federal Agency Postage Payments to the U.S Postal Service (Department of the Treasury, FMS, October 21, 2003)